

## Message Text

CONFIDENTIAL

PAGE 01 OTTAWA 01847 112344Z  
ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10  
L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11  
AID-05 COME-00 EB-08 FRB-03 TRSE-00 XMB-02  
OPIC-03 LAB-04 SIL-01 OMB-01 /093 W  
-----089601 112354Z /23

P 112337Z APR 78  
FM AMEMBASSY OTTAWA  
TO SECSTATE WASHDC PRIORITY 7005  
INFO AMCONSUL MONTREAL  
ALL OTHER CANADIAN CONSULATES BY POUCH

CONFIDENTIAL OTTAWA 01847

E.O. 11652: GDS  
TAGS: PINT, EFIN, ECON, CA  
SUBJECT: POLITICAL EFFECTS OF APRIL 10 BUDGET

REF: OTTAWA 1814

1. POLITICAL SIGNALS FROM BUDGET ARE MIXED. WORKING  
WITHIN OBVIOUS FISCAL CONSTRAINTS, CHRETIEN EXERCISED HIS  
CONSIDERABLE POLITICAL SKILLS AND GOT REASONABLY GOOD  
POLITICAL MILEAGE.

2. SALES TAX CUTS WILL APPEAL TO AVERAGE CANADIAN AND  
SECURING APPROVAL OF PROVINCIAL PREMIERS, MOST OF THEM  
TORIES, TO THE SALES TAX ARRANGEMENT ADDS AN AURA OF BI-  
PARTISANSHIP. THE HAVE-NOT PROVINCES' FULL REIMBURSEMENT  
FOR SALES TAX LOSS IS ATTRACTIVE TO THOSE AREAS. BENEFITS  
TO HAVE-NOTS, MOREOVER, WERE BALANCED BY TAX BREAKS  
DIRECTED AT MORE FORTUNATE PROVINCES. FOR EXAMPLE,  
ALBERTA, WHICH HAS NO SALES TAX BUT AN ECONOMY BUILT ON  
ENERGY RESOURCES, WILL BENEFIT FROM HIGHER DEPRECIATION  
WRITEOFFS FOR THE OIL INDUSTRY. SIMILARLY, R&D TAX  
BREAKS FOR BUSINESSES SHOULD BE ATTRACTIVE TO HIGHLY  
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INDUSTRIALIZED ONTARIO. EVEN THE PRAIRIES RECEIVED TAX  
RELIEF THROUGH CAPITAL GAIN POSTPONEMENT ON SALE OF AGRO-  
BUSINESS PROPERTY.

3. NIMBLE AS CHRETIEN WAS IN GAINING POLITICAL FAVOR  
IN THE FACE OF SUCH LIMITED ROOM FOR MANEUVER, APRIL 10  
BUDGET DID RELATIVELY LITTLE TO DEFUSE POCKET-BOOK ITEMS

AS SERIOUS, CONCEIVABLY FATAL THREAT TO LIBERAL GOVERNMENT. OPPOSITION TORIES AND NDP IMMEDIATELY LABELED BUDGET ELEMENTS AS HALF MEASURES, TOO LITTLE TOO LATE. ARMED WITH THEIR PROPOSED \$2 BILLION INCOME TAX CUT, TORIES CAN BE EXPECTED TO CONTINUE THEIR UNRELENTING ATTACK ON GOVERNMENT'S MIS-MANAGEMENT OF THE ECONOMY. NDP, FOR ITS PART, WILL HIT HARD ON GROWING UNEMPLOYMENT AND FAILURE OF BUDGET ADEQUATELY TO ADDRESS THIS PROBLEM.

4. AS MOST RECENT GALLUP POLL SHOWED, OPPOSITION HAS MADE NO GAINS WITH THIS LINE OF ATTACK TO DATE. NONE-THELESS, STATE OF ECONOMY WILL BE THE BIG ISSUE IN COMING ELECTION CAMPAIGN AND OPPOSITION WILL RUN IT FOR ALL IT IS WORTH. CHRETIEN BUDGET MAY HAVE GAINED LIBERALS A PERIOD TO CATCH BREATH. HOWEVER, UNLESS THERE ARE SOME ENCOURAGING ECONOMIC SIGNS BETWEEN NOW AND ELECTIONS LIKELY IN JUNE, LIBERALS WILL REMAIN HIGHLY VULNERABLE ON THE ECONOMY.

ENDERS

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NNN

## Message Attributes

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**Current Classification:** UNCLASSIFIED  
**Concepts:** BUDGETS, POLITICAL STABILITY  
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**Decapton Date:** 01 jan 1960  
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**Disposition Case Number:** n/a  
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**Message ID:** 869af0b2-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION EUR  
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**Secure:** OPEN  
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**TAGS:** PINT, EFIN, ECON, CA  
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